

The Joint Economic Committee SUBPRIME MORTGAGE MARKET CRISIS TIMELINE

Senator Charles E. Schumer, Chairman

September 2007

SEPTEMBER 2007

September 27: **Luminent Mortgage Capital, a home-loan investment company, downgrades its second-quarter profit** as the company struggles to gain access to credit and bankers seize assets.

Legend:
In the Markets
In Congress
In the Administration

September 27: **The Commerce Department reports that sales of single-family homes decreased by 8.3% last month, the lowest level in seven years.** The median price of a new home declined by 7.5% to \$225,000 in August 2007 as compared to the same month a year ago.

September 25: The **National Association of Realtors** releases new housing statistics that reveal sales of existing single-family homes dropped by 4.3 percent in August, compared to July. It is the **sixth straight decrease, pushing sales to the lowest point in five years.** The fall in sales pushes the inventory of unsold homes to a record 4.58 million in August.

September 25: According to the **S&P/Case-Shiller's Home Prices Indices**, which track housing prices in metropolitan areas, **home prices** continue to fall at an increasing rate. The 10-City Composite index shows an **annual decline of 4.5 percent – the largest in 16 years.**

September 25: In response to declining home sales and housing prices, **U.S. Senator Charles E. Schumer**, Chairman of the Joint Economic Committee and the Senate Housing Subcommittee **calls upon the White House to take action to combat the housing crisis.** “The spillover of the subprime mortgages mess into the larger housing market deserves a strong, decisive response from the administration to protect homeowners, consumer spending, and the overall economy before things get worse.”

September 21: **HSBC Holdings announces its plans to close its U.S. subprime unit, Decision One Mortgage,** and record an impairment charge of about \$880 million. HSBC states that it no longer believes the mortgage business is sustainable. Approximately 750 U.S. employees are expected to be affected by the decision.

September 20: **House Financial Services Committee holds a hearing entitled “Legislative and Regulatory Options for Minimizing and Mitigating Mortgage Foreclosures.”** The hearing examines President Bush’s recently announced plan to expand FHA programs and considers other possibilities for aiding troubled homeowners facing foreclosure. The Committee hears testimony from Treasury Secretary Henry Paulson, Housing and Urban Development Secretary Alphonso Jackson, Federal Reserve Chairman Ben S. Bernanke, as well as from consumer advocates and industry insiders.

September 20: Testifying before the House Financial Services Committee, **Federal Reserve Chairman Ben Bernanke says that the credit crisis has created “significant market stress” and that the Fed is “committed to preventing problems from recurring, while still preserving responsible subprime lending.”** Treasury Secretary Henry Paulson adds that the administration is considering raising the Fannie Mae and Freddie Mac loan limits so that they can temporarily buy, bundle, and sell as securities any loans exceeding \$417,000. **But Secretary Paulson emphasizes that any changes to include so-called jumbo loans must include stricter regulations for oversight.**

September 19: **The Joint Economic Committee, chaired by Senator Schumer, holds its second hearing on the subprime mortgage crisis to examine the continuing threat the crisis poses to the broader economy.** Opening the hearing, entitled *“Evolution of an Economic Crisis?: The Subprime Lending Disaster and the Threat to the Broader Economy,”* Senator Schumer says: “Our policy responses are not matching the magnitude of the risk that still lies ahead.” Testifying before the committee, Yale University economist Robert Shiller warns that the residential real estate downturn could spiral into “the most severe since the Great Depression” and could lead to a broader economic recession.

September 19: **The Office of Federal Housing Enterprise Oversight (OFHEO), the regulator of Fannie Mae and Freddie**

Mac, **agrees to relax restrictions on the mortgage finance companies' investment holdings**, enabling Fannie Mae and Freddie Mac to buy \$20 billion more in subprime mortgages. But OFHEO Director James Lockhart reaffirms the administration's stance that **he will not allow "any major increases in the (investment) portfolio levels."**

September 19: The Commerce Department reports that construction of new homes fell by 2.6 percent in August to the slowest pace in 12 years.

September 18: RealtyTrac Inc. announces that home foreclosure filings surged to 243,000 in August, up 115 percent from August 2006 and 36 percent from July, marking the highest number of foreclosure filings since RealtyTrac began tracking monthly filings. The foreclosure filing rate nationally is now one in every 510 homes.

September 18: The mortgage lending crisis intensifies as Impac Mortgage Holdings Inc. says it will quit most lending activities, while Accredited Home Lenders Holding Co. posts a major quarterly loss and says its survival remains in doubt.

September 18: Federal Reserve cuts target federal funds rate by a half point to 4.75 percent. It is the first rate reduction in four years and the steepest in nearly five years. The Fed openly admits that the housing downturn is much more severe than initially anticipated. In response to the rate cut, the **Dow Jones industrial average jumps 200 points** and closes up 335 points at 13,739.39.

September 18: The U.S. House of Representatives overwhelmingly passes H.R. 1852, the "Expanding American Homeownership Act of 2007," which expands funding for housing counseling, authorizes lower down payments for borrowers who can afford mortgage payments, and directs the Federal Housing Administration to offer mortgage loans to higher risk – but qualified – borrowers.

September 17: Merrill Lynch & Co. Inc.'s \$1.3 billion bet on subprime lending takes a turn for the worse when the world's largest brokerage confirms job cuts at its First Franklin Financial Corp. unit. Merrill Lynch declines to say how many jobs are being cut. Recently filed reports with U.S. banking regulators show that Merrill Lynch Bank & Trust Co., where a lot of the First Franklin franchise is housed, lost \$111 million through the first half of 2007.

September 17: NovaStar Financial Inc gives up its real estate investment trust, effectively abandoning the lending business, because it cannot pay a \$157 million dividend.

September 14: Merrill Lynch & Co., the biggest underwriter of collateralized debt obligations, signals that the subprime-mortgage crisis may hurt third-quarter earnings. The New York-based firm reports that it made "fair value adjustments" for potential losses to date on unspecified holdings and financing commitments.

September 12: According to the quarterly Anderson Forecast by the University of California at Los Angeles, the spreading housing crisis will push the national economy to the brink of recession but growth in other sectors of the economy could lead to a moderate recovery by 2009. David Shulman, senior economist for the forecast, **lowers his forecast for housing** starts to an annual rate of 1 million to 1.1 million, down from a range of 1.2 million to 1.3 million.

September 12: Speaking to representatives of leading financial firms, Treasury Secretary Henry Paulson says that the turbulence that has hit financial markets will take some time to be resolved, especially in the area of subprime mortgages. He urges the large firms to work with the administration to help ensure that subprime homeowners get assistance in dealing with sharply rising mortgage payments as their initial low adjustable rate mortgages now reset to higher levels.

September 12: The U.S. Senate gives final approval to a measure proposed by U.S. Senators Charles E. Schumer (D-NY), Sherrod Brown (D-OH), and Robert P. Casey (D-PA) to grant \$100 million in funding to housing non-profits on the front lines of the fight to prevent a national foreclosure crisis from the subprime lending fallout. The measure—which provides resources to government-approved agencies that help negotiate between borrowers and lenders to keep families in their homes—was contained in the Transportation and Housing and Urban Development (HUD) spending bill that passed the full Senate this morning. "For the millions of Americans at risk of losing their homes, these nonprofits can provide shelter from the foreclosure storm," said Schumer, the Chairman of both the Joint Economic Committee and the Senate Banking Subcommittee on Housing.

September 11: Speaking to reporters at a breakfast held by *The Christian Science Monitor*, **Secretary Henry M. Paulson reiterates the Administration's opposition to lifting the caps of the government-sponsored entities Fannie Mae and Freddie Mac.** Secretary Paulson instead expresses support for more stringent regulation of the GSEs

September 10: Representative Barney Frank, chairman of the House Financial Services Committee, implores Federal Reserve Chairman Ben Bernanke to raise investment caps on Fannie Mae and Freddie Mac. **In a letter to Bernanke, Frank writes: "The unpersuasive nature of this argument against raising the portfolio caps leads me to believe that the objection to an increase in the cap is ideological."** Frank also proposes to raise the Federal Housing Administration loan limit for single-family homes from \$362,000 to \$417,000.

September 10: **Senator Schumer introduces legislation to increase investment caps at Fannie Mae and Freddie Mac in order to alleviate the credit crunch that continues to plague the housing market.** Schumer also proposes increasing the maximum for home mortgages – from \$417,000 to \$625,000 – that Fannie Mae and Freddie Mac are allowed to hold on their books.

September 10: **James B. Lockhart, director of the Office of Federal Housing Enterprise Oversight** (in charge of regulating Fannie Mae and Freddie Mac) writes to Senator Schumer that **OFHEO would "reevaluate circumstances, including the caps on mortgage portfolios, as necessary."**

September 10: In regards to lifting the caps on Fannie Mae and Freddie Mac, President Bush said he would like to see Congress get GSEs "reformed, get them streamlined, get them focused, and then I will consider other options".

September 7: **The U.S. Department of Labor's Bureau of Labor Statistics (BLS) releases figures showing that employers cut 4,000 jobs from payrolls last month, the first net decrease since 2003.** Twenty-two thousand construction jobs were lost in August, with most related to the housing downturn, in particular among residential specialty trade contractors. **Nearly 100,000 construction jobs have been lost since September 2006.** Following the release of the report, the Dow Jones Industrial Average dropped 200.87 points.

September 7: **In response to the BLS figures, Senator Schumer calls on the Administration to act: "The combination of an economy turning down on its own and fears, mostly based on reality, that the mortgage crisis will get worse, demands strong leadership by the President, Secretary Paulson, and Chairman Bernanke."**

September 7: **House Financial Services Committee Chairman Barney Frank** sends a letter to Federal Reserve Board Chairman Ben S. Bernanke challenging his opposition to increasing the portfolio caps of Fannie Mae and Freddie Mac. **"Raising the caps is important for the reason that you implicitly acknowledged – so that we can get the GSEs into the business of helping us with the refinancing of current subprime mortgages that must be part of a response to this situation."**

September 6: **Concerned by the exploding subprime mortgage crisis, Federal Reserve Governor Randall Kroszner says fallout may spread beyond housing market into general economy.** Weeks after Democrats, led by Senator Schumer, warned of broader economic ramifications, Kroszner says: "A healthy banking system generally contributes to strong economic growth, and banking crises can present a substantial drag on the real economy."

September 6: **The Mortgage Bankers Association** releases a quarterly report showing that the delinquency rate (the number of people who are behind in their payments but have not yet entered the foreclosure process) for mortgage loans on one-to-four-unit residential properties was 5.12 percent of all loans outstanding in the second quarter of 2007, up 28 basis points from the first quarter of 2007, and up 73 basis points from one year ago. The delinquency rate for subprime loans was up from 13.77 in the first quarter to 14.82 percent in the second quarter. The delinquency rate for prime loans rose from 2.58 percent to 2.73 percent. **Compared to this time last year, the seriously delinquent rate is 23 basis points higher for prime loans and 304 basis points higher for subprime loans.**

September 6: Renewing his call for increased funding to community groups that provide financial expertise to floundering homeowners seeking to refinance, **Senator Schumer says: "A third straight quarter of record mortgage payment delinquencies is likely to mean record levels of foreclosures unless the Bush administration and Congress act quickly to help families keep their homes.** Non-profits groups that are on the front lines of this fight to help homeowners

are the best defense against the coming storm of foreclosures throughout the country."

September 5: The House Committee on Financial Services holds a hearing to examine the troubled credit and mortgage markets and potential "implications for U.S. Consumers and the Global Economy." **Chairman Barney Frank (D-Mass) expresses hope that the administration and Congress will collaborate to counter the "severe lack of investor confidence."**

September 5: **The National Association of Realtors releases statistics on pending sales for existing homes. The figures reveal a 16.1 percent decline in July from a year ago and a 12.2 percent decline from the prior month. The July 89.9 level is the second lowest in the history of the index and its lowest since the September 11th terrorist attacks that severely disrupted the national economy.**

September 5: **The Federal Reserve releases its Beige Book, a largely anecdotal report on the economy based on interviews with business leaders throughout the country. Counter to investor sentiment, the findings do not indicate that the housing crisis is expanding into the general economy. The Dow Jones industrial average drops nearly 200 points.**

September 5: **Senator Christopher Dodd, chairman of the Senate Banking Committee, announces his intention to introduce a bill that would make it illegal for mortgage brokers to steer borrowers eligible for standard mortgages into subprime loans.** The bill also aims to eliminate additional predatory lending practices, such as hidden fees and prepayment penalties.

September 4: **The six banking regulators, including the Federal Reserve, call on mortgage companies to work with struggling homeowners likely to lose their homes as their adjustable rate mortgage interest rates escalate.** Citing the benefit to both lenders and borrowers, Fed Governor Randall Kroszner says: **"Keeping families in their homes is a matter of great importance to the Federal Reserve."**

AUGUST 2007

August 31: **President Bush holds a press conference to highlight the growing problems in the subprime mortgage market. He says the "government has a role to play" in the growing crisis and calls upon the Federal Housing Administration to help subprime borrowers refinance into loans insured by the federal agency.** The modest FHA program is expected to assist 60,000 delinquent borrowers. President Bush announces an additional program expected to help another 20,000 homeowners by reducing insurance premiums for those who pose less of a credit risk. **Reaching out to Democrats, the President also expresses support for Michigan Senator Debbie Stabenow's Mortgage Relief Act, which will exempt homeowners from paying taxes on home loans forgiven after foreclosure.**

August 31: At FED meeting in Jackson Hole, Wyoming, **Federal Reserve Chairman Ben Bernanke reassures investors on Wall Street by stating that the Fed will "act as needed" to contain the spreading mortgage crisis and discourage predatory lending practices.**

August 31: **Representative Barney Frank (D-MA) responds to President Bush's press conference: "I welcome the Administration's recognition that a greater public response is required and I look forward to working with them because I agree with a number of specific things that they propose . . . However, there are some points of difference that we will need to work out going forward . . . I continue to believe that the portfolios of Fannie Mae and Freddie Mac can play a bigger role than they currently are playing, particularly in helping the refinancing of subprime mortgages that are about to experience significant interest rate increases."**

August 27: In a response letter to Senator Schumer, Federal Reserve Chairman Ben Bernanke writes: "The Federal Reserve, in cooperation with other federal agencies, is closely monitoring developments in financial markets," and the twelve Federal Reserve Banks "are working closely with community and industry groups dedicated to reducing the risks of foreclosure and financial distress among homebuyers." **But Chairman Bernanke opposes Senator Schumer's proposal to raise GES portfolio caps and instead calls upon the private and public sectors to develop new "mortgage products" more suited for "low-and moderate-income borrowers, including those seeking to refinance."**

August 27: **National Association of Realtors reports that existing home sales declined by 0.2 percent in July, leaving the level of sales 9.0 percent below the level 12 months prior. Senator Schumer calls for greater federal action "to address**

the subprime mortgage mess and to restore confidence in the housing market.”

August 22: **RealtyTrac** Inc announces **foreclosures were up 93% in July 2007** from July 2006. The national foreclosure rate in July was one filing for every 693 households. There were 179,599 filings reported last month, up from 92,845 a year ago.

August 22: In letters to more than **40 major market players**, and **federal financial regulators** including Chairman **Bernanke** and Secretary **Paulson**, **Senator Schumer cautions that regulators’ efforts to bring liquidity to tightened credit markets have so far overlooked** the harrowing situation in the **underlying mortgage** market that stoked the credit crunch in the first place. **Schumer urged banks, lenders, and loan servicers to direct resources to the non-profits on the frontlines** of the mortgage crisis in the same vain as the Senate Appropriations Committee, which has set aside \$100 million for nonprofits that work with homeowners to prevent foreclosure.

August 17: The **Federal Reserve cuts the discount rate by half a point**. Stocks rally.

August 16: **Countrywide Financial**, the nation’s largest mortgage lender, draws down \$11.5 billion from its credit lines.

August 16: All three **major stock indexes were 10% lower than their July peaks** – a marker indicating a correction of the stock market, due to tightening in the credit markets.

August 15: Rep **Barney Frank** announces plans to hold **hearings** in the **House Financial Services Committee** investigating **credit rating agencies role in the subprime mortgage crisis**.

August 13: **Aegis Mortgage** files for **bankruptcy**.

August 10: **John Edwards** responds to President Bush’s comments, calling on the Administration to act to moderate the housing crisis. Edward’s a plan to protect homeowners and fight predatory lending includes strong national legislation to regulate mortgage abuses and prohibit predatory mortgage lending based on North Carolina’s state law and a Home Rescue Fund to work with local non-profits, government agencies and community financial institutions to help struggling homeowners renegotiate or refinance their mortgages.

August 10: In regards to lifting the caps on **Fannie Mae and Freddie Mac**, **President Bush** said he would like to see Congress get GSEs “reformed, **get them streamlined**, get them focused, and then I will consider other options”.

August 10: The **federal regulator for Fannie Mae denies** the mortgage finance company's **request to grow its investment portfolio**, but did not close the door on the possibility of lifting the cap in the future.

August 9 and 10: **European Central Bank and Federal Reserve intervene in markets by pumping billions of dollars of liquidity into the markets**.

August 9: **American International Group**, one of the biggest U.S. mortgage lenders, **warns that mortgage defaults are spreading beyond the subprime sector**. With delinquencies becoming more common among borrowers in the category just above subprime.

August 9: **BNP Paribas**, a French bank, **suspends three of its funds** because of exposure to U.S. mortgages.

August 9: **President Bush** addressing the housing market crisis, saying, “The fundamentals of our economy are strong...I’m told there is enough liquidity in the system to enable markets to correct.” Bush also said, “The conditions for the marketplace working through these issues are good. My hope is that the market, if it functions normally, will be able to yield a **soft landing**.”

August 8: **Treasury Secretary Hank Paulson** says, “Borrowers weren’t quite as disciplined as they should be... Lenders clearly weren’t as disciplined as they should be. **We’ve seen some excesses**. We’ve seen it in the subprime area, and that will be with us for a while.”

August 8: **Senator Schumer** writes to **Federal regulators**, urging them to **devise an action plan to deal with the current liquidity crunch in the mortgage markets that threatens to spread** across the economy as a whole. Schumer expresses his concerns that regulators are underestimating the spillover effects of the housing market crisis. "Nobody, including me, wants or expects the Federal regulators to step in and lend a hand to the private sector players who took risky gambles in the subprime market," says Schumer. "But when millions of Americans who have good credit now face the real possibility of not being able to purchase a home because of spillovers from the subprime market, we need the regulators to play a leadership role to preserve market liquidity and minimize the damage."

August 7: **Senator Clinton** introduces a plan to address mortgage lending abuses, including new regulations on brokers, strong state licensing standards, and federal registration for brokers. The plan also proposes a **\$1 billion fund to assist state programs that help at-risk borrowers avoid foreclosure**.

August 7: Senators **Schumer** and **Dodd** separately write to James B. Lockhart III, director of the **Office of Federal Housing Enterprise Oversight (OFHEO)**, **urging him to consider temporarily raising the limit on purchases of home loans by Fannie Mae and Freddie Mac** in response to increasing concerns of a credit crunch spilling into the broader mortgage market.

August 7: The **Federal Open Market Committee** leaves the **overnight federal funds rate at 5.25%**, referring to tightening in the credit markets and ongoing housing market crisis as a "correction". Despite financial market turmoil, the FOMC forecasts that "the economy seems likely to continue to expand at a moderate pace over coming quarters, supported by solid growth in the employment and incomes and a robust global economy."

August 6: **American Home Mortgage** files for **bankruptcy**.

August 1: **Two hedge funds managed by Bear Stearns** that invested heavily in subprime mortgages **declare bankruptcy**. Investors in the funds file suit against Bear Stearns, alleging that the investment bank misled them about the extent of the funds' exposure.

JULY 2007

July 31: Home prices continue to fall, marking the **18th consecutive decline, beginning in December 2005, in the growth rate of housing prices**, according to the monthly **S&P/Case-Shiller's Home Prices Indices**, which tracks housing prices in metropolitan areas and is considered a leading measure of U.S. single-family home prices. The 10-City Composite index showed an annual decline of 3.4% (its biggest since 1991) and the 20-City Composite reported an annual decline of 2.8%.

July 30: **IKB Deutsche Industriebank**, a German bank, is **bailed out because of bad bets on U.S. mortgage-backed securities**.

July 25: The **JEC** examines the **impact of the subprime lending crisis on Cleveland, Ohio**, one of the hardest hit communities in the nation. The hearing reveals the individual faces of the subprime mortgage crisis. Local residents and city council members testify.

July 19: The **Dow Jones industrials** close above **14,000 for the first time**.

July 18 and 19: In two days of testimony in Congress, Chairman **Bernanke** said there will be "significant losses" due to **subprime mortgages**, but that such losses are "bumps" in "market innovations" (referring to hedge fund investments in subprime mortgages). **Bernanke reiterated that problems in the subprime mortgage market have not spilled over** into the greater system. Bernanke also said the problems "likely will get worse before they get better." He forecasts that the economy is poised for moderate growth, but continuing problems in the housing market prompt the Fed to slightly reduce its growth expectations.

July 18 and 19: Chairman **Bernanke** testifies in front of the House Financial Services Committee and the Senate Banking Committee in his Second Monetary Report to Congress in 2007.

July 18: **Commerce Department** announces **housing starts are down 19.4 percent** over the last 12 months. Also announced is a 7.5 percent plunge in permits to build new homes, the largest monthly decline since January 1995. Permits are 25.2 percent below their level a year ago, reflecting continued pessimism among builders over the near-term outlook for new

homebuilding.

July 18: **Bear Stearns** announces its **two hedge funds** that invested heavily in the subprime market are essentially **worthless, having lost over 90% of their value**, equal to over \$1.4 billion.

July 17: The **Federal Reserve** announces a **pilot program to monitor brokers**, joining the Board of Governors of the Federal Reserve with the Office of Thrift Supervision, the Federal Trade Commission, and state agencies represented by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators, to conduct targeted consumer-protection compliance reviews of underwriting standards, oversight, and risk-management practices within non-depository lenders with significant subprime mortgage operations.

July 10: **Standard and Poor's** and **Moody's** **downgrade bonds** backed by subprime mortgages. **Fitch** follows suit.

July 10: The Senate **Appropriations Committee** **approves \$100 million** of the requested \$300 million **for HUD Housing Counseling programs** in the Transportation, Housing, and Urban Development, and Related Agencies FY08 Appropriations Bill. With these funds, non-profit agencies are able to provide individual counseling by working one-on-one with borrowers stuck in unaffordable subprime loans.

JUNE 2007

June 26: Senator **Schumer** convenes housing experts to examine how to protect homebuyers from subprime lending and other mortgage industry abuses in a **Banking Subcommittee hearing**. The hearing focuses on the mortgage origination process, abuses in mortgage lending industry, responsible solutions to protect consumers in home-buying process and the impact of these proposed solutions on the market as a whole. The hearing also examines the Borrower's **Protection Act of 2007 (S. 1299)**, which seeks to address many of the abuses that have taken place in the mortgage process by creating new regulations and requirements for various mortgage originators.

June 22: **Bear Stearns** pledges up to **\$3.2 billion to bail out one of its hedge funds** because of bad bets on subprime mortgages.

June 14: **Goldman Sachs** reports **flat profit** from a year ago due to mortgage market problems.

June 12: **RealtyTrac** announces U.S. **foreclosure filings surged 90 percent in May from May 2006**. Foreclosure filings were up 19 percent from April. There were 176,137 notices of default, scheduled auctions and bank repossessions in May. The median price for a U.S. home dropped 1.8 percent the first three months of 2007. According to Freddie Mac, typically, more than half of all home sales occur in the April to June period.

June 6: **ZipRealty Inc.**, a national real-estate brokerage firm, announces that the number of homes listed for sale in 18 major U.S. metropolitan areas at the end of May was up 5.1% from April. This is a striking deviation from the general trend as tracked by the Credit Suisse Group, which says on a national basis, inventories of listed homes have typically been little changed in May during the past two decades.

June 5: At an International Monetary Conference in Cape Town South Africa, **Chairman Bernanke endorses the basis of a proposal made by Schumer to increase federal funds for community non-profits engaged in helping families in unsuitable subprime loans avoid losing their homes to foreclosure.**

June 4: **Housing and Urban Development (HUD)** Secretary Alfonso Jackson **endorses counseling and financial education as the best way to tackle the subprime foreclosure boom** in a speech at the National Press Club.

MAY 2007

May 25: The **National Association of Realtors** reports that sales of existing homes fell by 2.6 percent in April to a seasonally adjusted annual rate of 5.99 million units, the **slowest sales pace since June 2003**. The number of unsold homes left on the market reached a record total of 4.2 million.

May 17: At the Federal Reserve Bank of Chicago's Forty-Third Annual Conference on Bank Structure and Competition, **Chairman Bernanke reiterates** his March statement by saying the **Fed does not foresee a broader economic impact from the growing number of mortgage defaults.**

May 9: The **Federal Open Market Committee** meets and **leaves rates unchanged**. The FOMC states in their minutes, “The correction of the housing sector was likely to continue to weigh heavily on economic activity through most of this year, somewhat longer than previously expected.” However, the FOMC continued to refer to the housing crisis as a “correction”.

May 4: The **House Financial Services Committee** passes the “**Expanding American Home Ownership Act**”. The bill would allow Fannie Mae and Freddie Mac to purchase and securitize larger mortgages (up to \$625,500 or the region’s median home price) in high-cost areas of the U.S. where the median price exceeds \$417,000 (the current loan limit). The bill would also authorize zero down payment loans and direct the Department of Housing and Urban Development (HUD) to serve higher risk borrowers who would otherwise turn to predatory and high priced mortgage loan alternatives.

May 3: **Senator Schumer introduces the first comprehensive plan to help homeowners avoid foreclosures**. The plan includes a request for \$300 million in federal funds for community non-profits to help homeowners refinance current mortgages through personalized financial counseling. Schumer calls on banks and lenders to also provide funding for non-profit counselors. Senator Schumer, along with Senators Brown and Casey also introduce the “**Borrower’s Protection Act of 2007**,” which proposes federal regulation for mortgage brokers in order to avoid future defaults on subprime loans. The bill seeks to regulate mortgage brokers and originators under the Truth in Lending Act (TILA) by establishing on behalf of consumers a fiduciary duty and other standards of care. In addition, the bill outlines standards for brokers and originators to assess a borrower’s ability to repay a mortgage and holds lenders accountable for brokers and appraisers.

APRIL 2007

April 24: The **National Association of Realtors** announces that **sales of existing homes** fell 8.4% in March from February, the **sharpest month-to-month drop in 18 years**.

April 18: **Freddie Mac** announces plans to **refinance up to \$20 billion of loans held by subprime borrowers** who would be unable to afford their adjustable-rate mortgages at the reset rate.

April 18: **Senator Dodd** hosts the **Homeownership Preservation Summit**, bringing together some of the largest subprime lenders, securitizers, and servicers, as well as consumer and civil rights groups, to discuss ideas and develop solutions to the subprime mortgage market crisis. Following the summit, **Senator Dodd states, “I am not overly anxious to legislate... We think there may be enough laws on the books.”**

April 12: According to the Los Angeles Times, Tony Fratto, Spokesman for the **White House**, said **“individuals need to make smart decisions in taking on debt, and there has to be some responsibility for making those decisions.”** He also said that any federal action would be unwelcome and would encourage “risky behavior.”

April 12: Senator **Schumer** calls on **Federal Government to intervene on behalf of homeowners** in response to a **National Association of Realtors** report showing falling home prices due to rising foreclosures and a Los Angeles Times story in which the White House blamed homeowners for signing up for deceptive subprime mortgages.

April 11: The **JEC**, chaired by Senator Charles **Schumer**, releases a report analyzing the subprime mortgage foreclosure problem and its economic impact on the most vulnerable communities. The report, entitled “**Sheltering Neighborhoods from the Subprime Foreclosure Storm**,” argues that foreclosure prevention is cost-effective and presents policy suggestions for curbing future subprime foreclosures.

April 6: **American Home Mortgage** writes down the value of risky mortgages rated one step above subprime.

April 2: **New Century Financial** files for bankruptcy.

MARCH 2007

March 27: At a **Joint Economic Committee** hearing, Ben **Bernanke**, Chairman of the Board of Governors of the Federal Reserve System, says **housing market weakness “does not appear to have spilled over to a significant extent.”**

More Bernanke: “At this juncture, however, **the impact on the broader economy** and financial markets of the problems in the subprime market seems **likely to be contained**. In particular, mortgages to prime borrowers and fixed-rate mortgages to all

classes of borrowers continue to perform well, with low rates of delinquency.”

March 22: The Senate Banking Committee holds a hearing to investigate the sharp increase in defaults and foreclosures, questioning banking regulators, a Federal Reserve representative, industry executives and two homeowners. Both **Democrats and Republicans criticize banking regulators for failing to respond more quickly** to curb the growth in risky home loans to people with weak credit.

March 20: **People’s Choice** files for bankruptcy.

March 8: **New Century** Financial, the second largest subprime lender in 2006, stops making loans.

March 2: **Fremont General** stops making subprime loans and puts its subprime business up for sale.

March 2: The **Federal Reserve** announces **draft regulations** to tighten lending standards. Lenders would be required to grant loans on a borrower's ability to pay the fully indexed interest rate that would apply after the low, initial fixed-rate period of two or three years. New regulations are met with skepticism in Congress.

FEBRUARY 2007

February 20: **Nova Star** Financial reports a surprise loss.

February 12: **ResMae** Mortgage files for bankruptcy.

February 7: The Senate Banking Committee holds the first hearing of the 110th Congress addressing legislative solutions to predatory lending in the subprime sector.

DECEMBER 2006

December 28: **Ownit** Mortgage Solutions files for bankruptcy.